

Multimanager-Strategies zweiplus Quarterly Report

Falcon Private Bank Ltd.

Equities

The fact that the European debt crisis has not spiraled out of control, and the generally better than expected US economic data, coupled with a high degree of pessimism at the start of this year led to a strong increase in share prices in the first quarter. Increased signs of a soft landing in China and the positive result of stress tests for key US commercial banks boosted the positive mood. The MSCI World Index increased by 11 %.

The stock rally in the first quarter was mostly liquidity-driven, and the European Central Bank (ECB) played a key role in this regard. It flooded the European money markets with cheap three-year liquidity, and thus perceptibly relaxed the tension on the financial markets.

Bonds

The low demand for investments in safe harbors meant that US government bonds recorded their worst quarterly performance since the fourth quarter of 2010. Returns on 10-year treasuries were up 0,36 % to 2,17 %. On March 20 they were even at 2,40 %, before falling again at the end of the month. The absolute lowest returns stem from September last year at 1,67 %. In view of the excellent economic data, the probability of further monetary relaxation has fallen slightly. Higher-interest corporate bonds and securities from emerging nations recorded robust price increases in the first quarter. European government bonds generally tended to be slightly stronger, and differences in interest rates compared to Bunds fell slightly.

Currencies

The constructive environment in the eurozone meant that the euro gained 3 % against the US dollar in the first quarter, after having fallen constantly in the second half of 2011. In a three-year comparison, the euro has hardly changed compared to the greenback.

The Japanese yen, which increased to reach a 20-year record high compared to the US dollar at the end of 2011, fell by around 5 % in the first quarter thanks to the Bank of Japan's aggressive monetary policy.

The euro lost a bit of ground against the Swiss Franc over the past three months, and closed the quarter only slightly higher than the minimum exchange rate of CHF 1.20 set by the SNB.

Outlook and strategy for the 2nd quarter of 2012

We remain confident over the medium term for more risky classes of investment such as equities or commodities. Our optimism is primarily based on the continued recovery in the global economy, the relatively low inflation and the very expansive monetary policy being employed by the largest central banks. Corporate profits are expected to continue to enjoy robust growth, and stock valuations are relatively low. After the strong increase in prices on the stock exchanges since the start of the year, we are forecasting a consolidation or even a correction over the short term.

Investments in safe harbors such as government bonds are still not very attractive in fundamental terms. We do not believe that the strong increase in interest rates on the American capital markets in mid-March is the start of an upswing which will continue over the longer term. During the past few years, there have been some situations in which interest rates initially increased strongly and then fell again relatively quickly. For example, at the start of April 2010 the strong confidence in the US economy led to 10-year interest rates reaching more than 4 %. However, US economic data and the European debt crisis meant that returns fell back to less than 2,50 % again by the end of August. At the start of last year, interest rates on the capital markets increased again sharply, and reached 3,75 % in February 2011. This was followed by a renewed turnaround, which caused returns to fall to less than 2 % by the end of 2011.

In fact, the long-term interest rates may increase slightly over the medium term with the economic recovery. However, the increase will be limited, as the central banks are interested in low interest rates on the capital markets to stimulate their economies.

The positive results in Q1 2012 support our overweighting in equities, and we will continue to remain overweight for valuation reasons. As we are expecting attractive growth in emerging nations, we are retaining this position. We will remain underweighted in Japanese equities and we have increased North American equities and reduced European equities. We are becoming tactically more cautious. In addition, as a result of the current uncertainties in Iran and the risk of a higher oil price, we are hedging this issue with Investec Global Energy Fund. In terms of bonds, we have established a position in the Nordea European High Yield Bond Fund, and we have reduced our allocation in the Franklin Templeton Global Total Return Fund.

Performance (in %)

from 01.01.2012 to 31.03.2012

Strategy	CHF	EUR
Conservative	4,27 %	5,92 %
Balanced	6,06 %	7,59 %
Growth	7,56 %	9,14 %

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